

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Peoples Gas Light and Coke Company	:	05-0749
Reconciliation of revenues collected under	:	
gas adjustment charges with actual costs	:	
prudently incurred.	:	

**ORDER**

By the Commission:

**I. Procedural History**

On November 22, 2005, the Illinois Commerce Commission ("Commission") entered an Order Commencing PGA Reconciliation Proceedings, in accordance with the requirements of Section 9-220 of the Public Utilities Act ("Act"), which directed The Peoples Gas Light and Coke Company ("Peoples Gas", the "Company", or "Respondent") to present evidence in this docket at a public hearing to show the reconciliation of Respondent's purchased gas adjustment clause ("PGA") revenues collected with the actual cost of such gas supplies prudently purchased for the 12 months ended September 30, 2005.

Notice of the filing of Respondent's testimony and exhibits was posted in Respondent's business offices and was published in newspapers having general circulation in Respondent's gas service territory, in the manner prescribed by 83 Ill. Adm. Code 255, in compliance with the Commission's Order in this proceeding.

Pursuant to proper legal notice, a pre-hearing conference was held on April 26, 2006, before a duly authorized Administrative Law Judge of the Commission at its offices in Chicago, Illinois. Thereafter, an evidentiary hearing was held on May 30, 2007. Appearances were entered by counsel on behalf of the Company, the City of Chicago ("City"), the People of the State of Illinois ("AG"), the Citizens Utility Board ("CUB"), and Staff of the Commission. Peoples presented the testimony of James Orsi, Manager of Gas Accounting, Peoples Energy Corporation; Thomas E. Zack, Director of Gas Supply and Hub Services, Peoples; and Linda M. Kallas, Vice President and Controller, Peoples Energy Corporation. CUB and the City presented the testimony of Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc. Staff presented the testimony of Dianna Hathhorn, Accountant, Accounting Department of the Financial Analysis Division; Dennis Anderson, Senior Energy Engineer in the Gas Section of the Engineering Department of the Energy Division; and David Rearden, Senior Economist, Policy Program of the Energy Division. At the conclusion of the hearing on May 30, 2007, the record was marked "Heard and Taken."

On July 12, 2007, Peoples Gas, the Commission Staff, the AG and CUB-City each filed initial briefs. On August 2, 2007, the AG filed a reply brief and on August 3, 2007, Peoples Gas, Commission Staff, and CUB-City each filed reply briefs. The Administrative Law Judges' Proposed Order was served on November 5, 2007.

## **II. Uncontested Issues**

### **A. Lost Gas Revenue Policy**

Staff witness Hathhorn expressed concern regarding the Company's policy of not billing third parties for the cost of gas lost as a result of damage to gas lines by those third parties because ratepayers bear the burden of this gas cost through the PGA. Ms. Hathhorn recommended that the Company revise its process in order to consistently and routinely bill third parties for its estimated cost of gas lost as a result of damage to gas lines by third parties. She further recommended that any revenues recovered through these third party billings flow through the PGA.

Peoples Gas agreed to flow amounts recovered from third parties for lost gas through the Gas Charge. Peoples Gas also proposed a method for estimating damages. A few key factors affect the quantity of gas lost when a third party damages Peoples Gas' facilities, notably, size of the pipe, pressure, whether the pipe is fully or partially open and how long it is open. Peoples Gas developed a table that it proposed to use to estimate gas lost based on these key factors. Peoples Gas requests that the Commission find that this is a reasonable approach to billing for lost gas from third party damage to Peoples Gas' facilities.

The Commission agrees with Staff that Peoples Gas should routinely seek to recover damages associated with lost gas when a third party damages its facilities and Peoples Gas should flow through its Commodity Gas Charge any amounts it recovers for such damages. The Commission also concludes that Peoples Gas' proposed method for billing third parties is a reasonable way to compute damages and takes appropriate factors into consideration.

### **B. Gas Purchase and Agency Agreement**

Staff witness Anderson explained that, in Docket 01-0707, Peoples Gas' 2001-2004 PGA reconciliation proceeding, the Commission found the Company's Gas Purchase and Agency Agreement ("GPAA") to be imprudent. The same GPAA was in effect for the month of October in the reconciliation period that is the subject of the instant proceeding. Accordingly, Staff witness Rearden recommended that the Commission disallow \$2,125,334, based on Peoples Gas having the GPAA in effect for the month of October 2004.

CUB-City witness Mierzwa similarly testified that the Commission had previously found the GPAA imprudent. His testimony focused on two elements of the GPAA, namely the Summer Incremental Quantity ("SIQ") and the capacity release and assignment provision of the GPAA. He explained why each element was imprudent and calculated an adjustment for each element based on what he stated Peoples Gas paid under the GPAA *versus* what it would have paid without these elements. The recommended adjustments in his direct testimony were \$355,355 for the SIQ and \$2,489,066 for the capacity release provision. In his rebuttal testimony, Mr. Mierzwa accepted Staff's recommendation in lieu of his own.

Peoples Gas did not contest Staff's proposed disallowance. The AG included the uncontested Staff recommendation in its recommendations.

The Commission agrees with Staff, CUB-City and the AG that a disallowance for the GPAA is appropriate and orders Peoples Gas to refund, through Factor O, applied to the Commodity Gas Charge, \$2,125,334.

### **C. 06-0752 Issues**

Staff witness Anderson recommended that Peoples Gas address two topics in its fiscal year 2006 gas charge reconciliation direct testimony (Docket 06-0752). First, he recommended that, if Peoples Gas continues to retain its Rate Schedule NSS storage with Natural, then it should address its use of this storage. Second, he recommended that, if Peoples Gas awards supply contracts that combine different supply options, then it should address how this lowers gas costs relative to issuing separate RFPs.

The Company agreed to address, in direct testimony in its 2006 PGA reconciliation proceeding (Docket 06-0752), both the retention and use of NSS capacity and the benefits to ratepayers of issuing multi-attribute contracts through an RFP process. The Company's commitment to address these issues in its subsequent PGA reconciliation proceeding resolves Staff's concerns in the instant reconciliation proceeding.

The Commission adopts Staff's proposal and directs Peoples Gas to address, if it has not already done so, the above-described contract issues in its direct testimony in Docket 06-0752.

## **III. Contested Issues**

### **A. Bank Gas Liability**

#### **1. Staff's Position**

Staff witness Hathhorn proposed to disallow \$6,942,621.00 for a reconciling adjustment to the liability for the redelivery of gas to transportation customers' gas bank

accounts, i.e., banked gas, entered on the Company's books in May 2005. Staff maintains the disallowance is necessary because of uncertainty concerning the accuracy of the Company's proposed adjustment. It is uncontested that the Company's proposed adjustment for banked gas includes amounts for periods prior to the reconciliation year. Staff also maintains that the Company's proposed adjustment relies on questionable internal controls for banked gas that were in place during the reconciliation period.

Banked gas refers to the Company's recognition of a liability for the redelivery of gas to transportation customers' gas bank accounts. The monthly change in the liability is recorded at the current last-in-first-out price and may be either an increase or a decrease to PGA gas costs, depending upon consumption. For the year ended September 30, 2005, this liability increased PGA costs by \$19,457,015.61.

Staff objects only to the May 2005 adjustment to banked gas, which accounts for 36% of banked gas PGA costs for the reconciliation year. The adjustment was recorded when the Company discovered a difference in the volumes attributed to banked gas in its general ledger system versus the volumes attributed to banked gas in its customer billing systems. According to Staff, the difference was discovered during the implementation of Sarbanes-Oxley Act of 2002, which requires the evaluation of the effectiveness of an organization's internal controls over its financial reporting. It is undisputed that the banked gas reconciliation process was considered a significant deficiency for Sarbanes-Oxley purposes in FY 2005. This review found that the monthly reconciliation of the gas bank account balances between the general ledger and subsidiary customer ledgers was not being performed in fiscal 2005.

Additionally, the Company acknowledges that it is not possible to identify how much of the volume difference occurred during FY 2005 or prior periods. According to Staff, the Company's comparison of these prior year costs (of unknown amount) to pipeline refunds is deliberately deceptive. The pipeline refunds to which the Company refers are flowed back in fiscal years subsequent to the year in which the activity occurred because there is no way for the Company to know the amount of refund at the time of occurrence. This is absolutely not the case for the banked gas adjustment, Staff avers. The only reason the Company did not make its adjustment in the proper time period is because it was not performing the necessary reconciliations to record the adjustment in the proper time period. Staff contends that these two scenarios are not comparable and the Company's arguments as such are disingenuous.

According to Staff, the Company attempts to cloud the record by stating that the basis for Staff's opinion that customers were harmed by the adjustment is that the customers in 2005 whose gas costs were affected by the adjustment were not necessarily the same customers who were on the system when the underbilling occurred. However, Staff's concern is that gas costs for all PGA customers were increased during the 2005 reconciliation year for the Company's adjustment, yet the adjustment cannot be verified

and relates to multiple past time periods. The Company's argument concerning how long its customers remain on its system completely misses the point.

The one and only factual issue in dispute is whether or not Peoples accurately computed the correction. Peoples relies on its subsidiary customer billing ledger and checks "in the form of" its transportation customers. Peoples IB at 18. Staff maintains the Company's sole reliance on the customer billing system is misplaced. The Company did not reconcile any customer bills from the customer billing system to the general ledger system to confirm that the C-First records should be used instead of the SAP records. Instead, Peoples based its decision to dismiss the general ledger data on the fact that it had "controls" in the customer system. The Company stated it attempted to reconcile the gas bank account volumes from the entire customer billing records, for those that have banked gas, to the entire gas bank account volumes reflected in the general ledger. Staff Exhibit 4.0 at 5. The workpapers indicate otherwise. Id., Attachment A at 4. The Company simply compared the total volumes per its billing records with the volumes reflected in the general ledger. The difference in these volumes was multiplied by the September LIFO rate to calculate the Company's adjustment. A more appropriate reconciliation would begin with the volumes in one system and then have one or more adjustments to reconcile to the volume stated in the other system. The Company's version of a reconciliation relied solely on the C-First balances, merely adjusting its general ledger records to agree with its customer billing records without verifying the cause of the differences. This insufficient audit procedure does not prove that the subsidiary ledger (i.e., customer billing or "C-First" system) is more reliable than the general ledger data. Staff Exhibit 4.0 at 6.

Peoples Gas' second check and evidence that its correction was accurate, is "in the form of" its transportation customers and their suppliers. Peoples Gas states that, "[i]f the bills were wrong, the transportation customer or its supplier would raise this with Peoples Gas." Peoples IB at 18-19. Staff asserts that the magnitude of the error over a number of years, combined with the insufficient reliance on its "controls" and "reconciliation" described above, is sufficient evidence to question its accuracy.

In conclusion, Staff recommends the Commission approve Staff's recommended disallowance of \$6,942,621.00 for the liability for banked gas because: (1) it was caused by a lack of internal controls by the Company; (2) it is unverifiable; and (3) an unknown, unquantifiable amount of it relates to time periods prior to FY 2005.

## **2. AG**

In its initial brief, the AG, citing Ms. Hathhorn's and Mr. Mierzwa's testimony, supported the Staff's and CUB-City's proposals.

## **3. CUB-City Position**

CUB-City witness Mierzwa and Staff witness Hathhorn both assert that Peoples Gas should not be made whole for its lack of adequate internal controls and that the

Commission should disallow, as imprudent, the substantial portion of the cost of the liability for the redelivery of customer-owned gas.

Mr. Mierzwa explained that, when transportation customers deliver more gas to Peoples Gas than they consume, the excess deliveries are banked on the customers' behalf. Ratepayers are charged for these excess deliveries by transportation customers. According to the Company, because the utility does not segregate its system supply from banked gas in storage, the banked gas displaces purchases that would have otherwise been necessary to meet sales customers' requirements. Until recently, the Company admitted that it failed to accurately track and record banked volumes. In fact, the Company's Sarbanes-Oxley audit team verified that the internal controls relating to banked gas balances during the 2005 reconciliation period were deficient. CUB-City contend that, rather than reconciling the banked gas balances with the general ledger, for example, the Company was only able to provide the Commission with documentation from the customer billing system that it used to calculate its adjustment. According to CUB-City, this information does not provide the parties or the Commission with the verifiable or accurate cost data necessary to demonstrate that these costs were prudent.

CUB-City cite the Public Utilities Act, which dictates that it is the utility's burden to establish the prudence of its gas costs (220 ILCS 5/9-220), where prudence is the standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management. *Illinois Power Co. v. Illinois Commerce Commission*, 245 Ill. App. 3d 367, 371 (3d Dist. 1993). CUB-City aver that the Commission must view all of the Company's claimed costs under this standard, and therefore the verifiability of the utilities cost is of central relevancy. Both Staff and CUB-City demonstrated that the Company's lack of proper accounting controls led to an unverifiable adjustment for an unknown, unquantifiable amount of time, which fails the prudence standard under Illinois law. Therefore, CUB-City recommend that the Commission disallow \$6,942,621 of the banked gas adjustment because Peoples Gas has failed its burden to demonstrate that this amount was prudently incurred.

Furthermore, CUB-City maintain that, pursuant to Section 525 of the Administrative Code, only costs incurred by public utilities during the applicable reconciliation period, as adjusted by Factor A and Factor O, are eligible for recovery. 83 Ill. Admin. Code Part 525.30. While the Company is correct that costs incurred in one reconciliation period may be recovered in another period, CUB-City reason that, in such cases, the period of improper collection or assessment is known and of a short duration. In addition, CUB-City take issue with the Company's adjustment because it may result in the collection of gas costs from customers who were not customers of Peoples Gas when the undercollection occurred. CUB-City assert that it is inequitable to require such customers to pay for gas costs that were not incurred on their behalf.

The Company claimed in supplemental direct testimony that \$1.7 million of the \$8.6 million is attributable to the 2005 reconciliation period. Both CUB-City and Staff were

sufficiently satisfied with this calculation to accept this amount as being incurred during the reconciliation period, and therefore both CUB-City's and Staff's recommended disallowances have been reduced to \$6,942,621.

In the event the Commission disagrees with CUB-City's and Staff's recommended disallowance of \$6,942,621 in unverifiable banked gas costs, CUB-City recommend the Commission adopt the Company's first alternative disallowance calculation. This alternative would disallow \$2.7 million of the proposed adjustment based on changes to Peoples Gas' customer base since 1991, the year the company began accounting for a banked gas liability. Because it is less conservative, CUB-City do not recommend that the Commission adopt the Company's second alternative \$1.2 million disallowance calculation based on changes to Peoples Gas' customer base since 2000, the year Peoples Gas implemented the customer information system that may have caused the undercollection.

#### **4. Respondent's Position**

During the Reconciliation Period, Peoples Gas made a correction to its bank gas liability. The correction increased gas costs by approximately \$8.6 million. Peoples Gas witness Kallas explained that the bank gas liability is the dollar value assigned to Peoples Gas' obligation to deliver bank gas to customers. Transportation customers' ("transporters") deliveries to Peoples Gas do not equal their consumption. The difference is accounted for in the GBA. The Tariff defines the GBA rights. Generally, if a customer's deliveries exceed its consumption, then the GBA balance increases and *vice versa*.

Ms. Kallas explained that on any day when transporters deliver more gas than they consume, Peoples Gas does not literally store the gas for the customer, but it becomes part of system supply. It would displace purchases on that day, which would reduce that day's recoverable gas costs, or be added to storage such that, when withdrawn, it would displace requirements that would otherwise be met through purchases and reduce recoverable gas costs at that time. However, Ms. Kallas stated that the over-delivery creates a Tariff obligation to deliver this quantity of gas to the transporter at some later time. When transporters take GBA gas, Peoples Gas must purchase more gas than what is needed for sales customers' requirements or adjust storage activity or both. This purchase and storage activity represents recoverable gas costs. As Ms. Hathhorn stated, the correction was an accounting, not a physical, adjustment and, consequently, it had no effect on the quantity of gas in the GBA to which transporters had rights.

Ms. Kallas stated that when Peoples Gas uses customers' over-deliveries as system supply, it adds to gas costs to reflect the value of these quantities and records a liability to reflect the obligation to deliver this quantity to the transporters. Each month, Peoples Gas re-prices the liability quantity to reflect its current value. Any difference in this new value and previously recorded amount is also passed through the Gas Charge. Ms. Kallas stated that when Peoples Gas delivers GBA gas to transporters, the reduction in the updated

liability attributable to the smaller quantity being priced will offset the additional cost of gas purchased that month.

According to Ms. Kallas, Gas Accounting compares the transporters' deliveries to their actual and estimated usage each month. This is based on delivery information from Gas Transportation and usage information from the billing system. The difference increases or decreases the GBA balance. Peoples Gas prices the balance at the current LIFO price and adjusts the liability on the general ledger.

Ms. Kallas stated that Peoples Gas needed to make the GBA correction to reconcile its general ledger and certain subsidiary ledgers. The way Peoples Gas bills transporters results in a timing difference that needed to be, but was not being, reconciled. The general ledger included estimated GBA data while the subsidiary ledgers included actual data. The billing process results in bills issued after the monthly close of the books. To determine an approximate month-end bank gas balance, a usage estimate is included in the general ledger calculation. The full amount of the obligation was the actual information in the subsidiary ledgers and included in the transporters' bills.

Ms. Kallas asserted that Peoples Gas used the correct data to make the correction. The subsidiary ledger information is an accurate source, she testified, because of the process that leads to information being recorded there. Each day, transporters or their gas suppliers notify Peoples Gas, through what is called a nomination, of the quantity of gas that they will deliver that day. The nomination identifies the customer(s) to which the nomination corresponds. The nominations system has external checks and balances. For example, Peoples Gas must confirm the nominated quantity with the pipeline that will be delivering the gas to Peoples Gas' system. If there is a discrepancy, Peoples Gas, the customer or supplier, and the pipeline must resolve the matter. The supplier may also have to involve its upstream supplier(s) and perhaps other pipelines. Thus, according to Peoples Gas, the delivery quantity, which with usage determines the amount of gas added to or subtracted from the bank, is the subject of a process involving at least two outside parties.

Ms. Kallas stated that there is an additional check because transporters and their suppliers know, through their nominations and the related pipeline activity, what they have delivered and know, through their bills from Peoples Gas, how much gas they used. The difference is the GBA activity, which is also shown on the customer's bill. Ms. Kallas stated that the GBA is a valuable right for transporters and their suppliers. If the bills were wrong, Ms. Kallas stated that the transporter or its supplier would raise this with Peoples Gas. Resp. Ex. E, pp. 6-7.

In response to Staff's criticism that Peoples Gas' reconciliation was insufficient, Ms. Kallas explained that the general ledger system is not intended to be the system that contains detailed billing and receivable information. That information is contained in the billing (C-first) system, which is the sub-ledger of the general ledger system. The



information passed to SAP (the general ledger) is summarized by type of customer but does not contain information on individual customers. On a monthly basis, the total revenue recorded in SAP is reconciled against the summarized daily billings in C-first. Additionally, the total balance of each customer's individual accounts receivable balance, as detailed in the C-first ledger, is reconciled to the balance contained in SAP. Therefore, the general ledger is reconciled to the detailed C-first sub-ledger. Ms. Kallas stated that the only way that an individual customer's bill could be reconciled to the general ledger would be if the detail by each customer was recorded in the general ledger. She concluded that this would not be practical or cost efficient.

Peoples Gas agreed that a flaw in the way it determined the bank gas liability led to the correction in the Reconciliation Period. Peoples Gas acknowledged that reconciliation between ledgers needed to occur, and Ms. Kallas stated that it has worked to eliminate the problem. However, Peoples Gas argued that the gas costs at issue were prudently incurred, and the bank gas liability included in the Reconciliation Period was the correct amount. Absent the correction, Peoples Gas asserted that the sales customers, who used, but did not pay for, the bank gas when transporters delivered it, would not be paying for the gas that they used.

## **5. Commission Analysis and Conclusion**

The language of Section 525 of the Administrative Code supports the position that a utility may generally not recover a cost out of the reconciliation period, except in the limited instances enumerated in the rules. On this basis alone, the Commission can deny the adjustment. Section 525.70 of the Commission's rules states that the annual reconciliation statement shall show "the costs recoverable through the Gas Charge(s) during the reconciliation year." 83 Ill. Admin. Code §525.70. Although we are hesitant to say that exceptions will never occur, this situation does not warrant making such an exception.

Not only were the costs at issue here not incurred during the reconciliation year, the Company's proposed adjustment is not adequately supported. The Commission finds that Staff and CUB-City have raised sufficient questions concerning the Company's internal accounting controls. Ms. Hathhorn, in her rebuttal testimony, stated that the Company's insufficient audit procedure consisted of "merely adjusting its general ledger record to agree with its customer billing records without verifying the cause of the differences." Staff Ex. 4.0 at 6. We agree with Staff that this does not prove that PGA gas customers are liable for an additional \$6.9 million in costs.

The Commission accepts that \$1.7 million of this amount was accrued during the reconciliation period, but this is the only amount for which the utility provided sufficient evidence of prudent accounting. Thus, the Commission concludes that \$6,942,621 of the \$8.6 million adjustment to the banked gas liability should be disallowed as imprudent.

**B. Bank Gas Liability Prior Period Adjustment****1. Staff's Position**

Staff witness Hathhorn proposed to disallow of \$812,385.99 in costs related to FY 2004, which is a closed reconciliation year, as ordered in Docket 04-0683. In order to adjust the FY 2004 reconciliation, the docket would need to be reopened. The Company compares the correction to the routine true-up of gas costs and revenues which result through Factor A.

However, Staff argues that Factor A is an on-going automatic adjustment that flows the under/over recovery of actual gas costs and revenues from the second prior month into the calculation of the rate to charge customers. Staff's adjustment does not relate to the routine true-up of gas costs to suppliers or revenues affected by usage. Rather, it is the result of an error during the time period that was the subject of a global settlement. The Company advocated, and the Commission accepted, a settlement which rendered any analysis of Respondent's gas costs and revenues of these prior periods moot. By correcting this error within FY 2005, the Company is attempting to better its deal from that provided in the settlement of the prior years' reconciliations.

Because Staff did not review the Company's FY 2004 reconciliation activity due to the settlement in Docket 04-0683, there is no evidentiary record to review for possible errors in the FY 2004 reconciliation. As such, Staff maintains that it is inappropriate to allow increases to gas costs for FY 2004 because the issue, by default, was handled in the settlement. If the Company believes the costs in ICC Staff Exhibit 4.0, Schedule 4.6 are material, Staff suggests the Company petition the Commission to re-open Docket No. 04-0683.

**2. AG**

In its initial brief, the AG, citing Ms. Hathhorn's testimony, supported Staff's proposal.

**3. CUB-City Position**

CUB-City did not address this adjustment.

**4. Respondent's Position**

According to Ms. Kallas, the subject of Ms. Hathhorn's "prior period adjustment" proposal is that, in September 2004, the routine monthly bank gas entry booked was incorrect due to a spreadsheet error in the supporting document for the entry. This error prevented the proper valuation of the year-end bank gas volumes at Peoples Gas' year-end LIFO rate, causing both the liability and gas costs to be understated in that month.

This error was discovered after Peoples Gas had closed the books for September 2004. Accordingly, Peoples Gas deferred a correcting entry to the very next month of October 2004.

This item is the product of a routine entry and not part of reconciling the general and subsidiary ledgers, *i.e.*, it is distinct from the bank gas liability issue discussed above. Ms. Kallas stated that it was prudent to book a correcting entry in the month immediately after the error's detection.

Ms. Kallas opined that the fact that the costs were incurred in fiscal year 2004 does not preclude their recovery in fiscal year 2005. Under the Commission's Gas Charge rules, this occurs routinely. For example Factor A, which is a component of each month's Gas Charge, is predicated on a two-month lag. (The lag in this instance was one month.) The amortization period for Factor A can be up to twelve months. 83 Ill. Admin. Code §525.50. As a second example, Ms. Kallas stated that the Gas Charge rules require the utility to flow pipeline refunds through the Gas Charge. It is certainly possible for a pipeline refund to pertain to costs incurred in a prior fiscal year. Resp. Ex. C, p. 9; 83 Ill. Admin. Code §525.50(a)(1). Under Peoples Gas' Tariff, Ms. Kallas stated that it is likewise inevitable that costs and credits incurred in one year will be recovered or refunded in a subsequent year. The liability tracks deliveries of transporters' gas. The Tariff governing transporters' rights ensures that there will be an undefined lag between deliveries to the bank and deliveries from the bank.

Finally, Ms. Kallas stated that an adjustment to gas costs crossing fiscal years is not uncommon. An example is booking gas cost accruals in the last month of one fiscal year only to have to true-up those gas costs in the following first month of the next fiscal year to actual gas costs. Peoples Gas argued that the Commission does not and need not re-open a docket every time such an adjustment occurs.

## **5. Commission Analysis and Conclusion**

The same concerns arise here with the additional problem that this time period is subject to a settlement, which was accepted by the Commission. As such, the Commission is not inclined to allow the Company to correct its error for this time period. Accordingly, we agree with Staff that \$812,385.99 in costs related to FY 2004 should be disallowed.

### **C. Gas Supply Contracting Process - Multi-Attribute Contracts**

#### **1. Staff's Position**

In the multi-attribute contracts that are at issue in the instant proceeding, Peoples Gas bundled together several different aspects of gas purchasing. The Company released capacity on pipelines at maximum rates to the seller. In return, the seller sold gas to

Peoples Gas at citygate prices. In addition, the Company could swing up to the capacity of the pipeline, while it also received the ability to return a certain amount of gas back to the seller during the winter.

Staff witness Rearden expressed several concerns with respect to Peoples Gas' multi-attribute contracts. Essentially, his concerns may be simplified by two key points. First, once again buying at the citygate price turned out badly for the ratepayer. As in the case of the GPAA, the price differential between field and citygate remained stubbornly high and reduced the value of the contract. However, Because it did not appear that the Company ignored data indicating this would happen, Staff did not ultimately offer a disallowance. Second, when the Company purchases several types of gas in one contract, it becomes difficult for Staff to investigate the contract to ensure that the bundled price is not higher than the unbundled price. It becomes doubly difficult when some aspects of the contract are not readily available in the open market. One such element was the value of the put. Peoples did not correctly estimate the value of the put before it signed the contract. In addition, Staff is concerned that the presence of the put as part of a bundled contract may discourage bidders from bidding aggressively on the contract. Bidders may be uncertain about the put's value and may either fail to bid for the contract and/or include a large premium in the bid to protect it from an unknown value. A large premium by enough bidders raises the price that Peoples is likely to pay. There is some indication that this occurred. Many bidders either did not include a put in their bid or had a large differential between the bid with a put and the one without a put.

Staff believes that the Company should improve how it values each element in the bundle. In particular, if in the future the Company desires to continue including a put in bundled contracts, it should either bid the put out separately or exclude it from the contract. The Commission should also order the Company to independently evaluate each attribute of the contract. These measures may protect ratepayers from paying excessive costs for services that the utility may over-value. The put service in the contracts at issue in the instant proceeding is a particularly good example of a service that needs to be both separately bid and evaluated.

## **2. AG**

The AG, citing Staff's testimony, agreed with the Staff recommendations.

## **3. CUB-City**

CUB-City did not testify about this issue.

## **4. Peoples Gas**

Peoples Gas strongly disagrees with the Staff's discussion of and conclusions about the multi-attribute contracts. Mr. Zack stated that the contracts included: capacity release

of two separate firm transportation agreements; defined monthly baseload deliveries; an option for Peoples Gas to purchase additional volumes, up to the capacity that it released, at a daily index price; a defined number of put rights that Peoples Gas could exercise each winter to avoid baseload purchases when these supplies were in excess of demands; and a provision that allows Peoples Gas the right to restrict the deliveries to the pipelines on which the capacity was released.

Mr. Zack stated that, under the RFPs, bidders were required to incorporate the value and cost of these different requirements into one pricing element, namely an index specified in the RFP to which the bidder specified an amount per dth to add to or subtract from that index. This allowed Peoples Gas to evaluate the bids on an apples-to-apples basis. Everyone was bidding under a uniform pricing structure to provide the same service and to meet the same requirements.

Mr. Zack explained that Peoples Gas entered into this type of service for a number of reasons. First, Peoples Gas determined that firm transportation ("FT") capacity not used for baseload supply could be more efficiently shaped to provide baseload volumes, that varied from month to month (but not within the month), and the option to purchase additional volumes at a defined daily index price. Second, by releasing the capacity at maximum rates, Peoples Gas received at least what it had paid for the capacity, and it allowed the competitive market to determine the additional market value of the capacity. Third, Mr. Zack stated that Peoples Gas believes that marketers are better able to maximize the value of the capacity, given their large trading organizations, broader geographic footprint, diversity of customer demand, and their ability to optimize Peoples Gas' capacity with their other assets.

Mr. Zack explained that, based on Peoples Gas' conversations with suppliers, they generally perceive less risk when a customer awards a bundled package of assets. Thus, suppliers will lower the profit margin per asset segment, and this reduces the overall cost to the customer. If a supplier submits separate bids for each asset, the total cost would be greater since the risk of not securing all the assets is greater.

Mr. Zack disagreed with Dr. Rearden's assessment of the documents he reviewed. While those support papers attempted to place a value on the individual parts, this was not the basis of Peoples Gas' bid award. The bid award was based a single pricing element, an index rate plus or minus an amount per dth.

With respect to Dr. Rearden's criticism of the puts, Mr. Zack explained that Peoples Gas actually received two responses that indicated a value for the puts. With respect to the value of weekend service, Mr. Zack explained that the value in the support paper was an educated estimate because the market does not provide a non-level nomination service over a weekend period. However, an alternative could be to buy additional storage to cover the 20,000 dth of swing potential. Such storage would probably cost in the range of

\$736,800 to \$1,500,000. In the support paper referred to by Dr. Rearden, the Company chose to be conservative and reflected a smaller value.

In response to Dr. Rearden suggesting a preference for buying gas in the field, Mr. Zack responded that he does not believe it is feasible to generalize about field *versus* citygate pricing relationships as one can be better than the other and *vice versa*. According to Mr. Zack, Peoples Gas wanted to capture the greatest value for this transportation. To the extent that the value of firm transportation is greater than the maximum rates that a shipper can receive under capacity release, Peoples Gas' RFP process allowed that value to be captured. At times, the value may be even greater, but that does not insure that a small trading group focused on a narrow geographic region, like that at Peoples Gas, can capture it on a regular and consistent basis. Also, as to the recommendation that Respondent simply buy gas in the field and transport it to the citygate to avoid the basis risk, Mr. Zack stated that a significant portion of Respondent's portfolio does that.

Mr. Zack explained that, contrary to Dr. Rearden's criticism of Peoples Gas' ability to forecast basis, Peoples Gas did not forecast basis in its bid review. Peoples Gas incorporated the basis value in the bids, and Peoples Gas took the lowest bids. However, Peoples Gas' workpapers included information from Peoples Gas' Risk Management area based on quotes provided to them by outside sources such as brokers and banks.

Notwithstanding its disagreement with Staff's review of the multi-attribute contracts, Peoples Gas stated that it welcomes any clarity the Commission gives on the prudence standard. It is, however, concerned about the ambiguity in the Staff testimony that underlies the recommendations in the brief. For example, Dr. Rearden stated that Staff is "very concerned" about Peoples Gas adding a put to the contract, but Staff is "not as concerned" when Peoples Gas bundles baseload with swing supply. ICC Staff Ex. 6.0, pp. 4-5. The Staff's initial brief addresses only requiring the put to be bid and evaluated separately, but it characterizes the put as a "particularly good example." Staff In. Br., p. 7. Does this mean that Peoples Gas must require discrete bids on a put option in a contract but it could bundle baseload and swing supply in a contract without discrete bids? Does this mean that a prudent contract may not include more than one attribute or only that a request for bids must require bidders to place a value on each component of the contract? The latter approach would increase the likelihood that Peoples Gas would not be able to evaluate bids on an apples-to-apples basis because bids would include more than one variable. Any guidance on prudence should be as unambiguous and objective as possible.

## **5. Commission Analysis and Conclusion**

Staff appears to make two recommendations. First, Staff recommends that the Company be required to improve how it values each element in multi-attribute contracts.

Secondly, Staff suggests that the put should be bid out separately or even excluded from these types of contracts.

Staff, however, neither asserts that these multi-attribute contracts were imprudent nor suggests a disallowance. We also decline to make a finding of imprudence or to direct the Company to alter its practices. Not only is the Company's behavior not found to be imprudent, but Staff's recommendation is a little unclear in that bundling certain of these items together might be acceptable, but bundling others might not be. Also, the Company provided testimony that there may be some benefit to bundling these together when seeking bids. Accordingly, we do not adopt Staff's recommendations at this time and note that this issue will be further explored in Docket 06-0752.

#### **D. Gas Supply Contracting Process - Rate Schedule NSS Capacity Release**

##### **1. Staff**

The Company continues to release its valuable NSS contracts at maximum rates. Staff is concerned with this practice because it does not appear that the Company has endeavored to value this asset. Peoples Gas' explanation resorts to how difficult it is to use the NSS capacity without additional transportation capacity. Staff recognizes the difficulty in acquiring relevant capacity. However, without understanding the storage service's intrinsic worth, the Company is unable to determine what it is surrendering, should capacity become available.

Staff witness Rearden made two recommendations: (1) Peoples Gas should assess the economic value of the service and try to derive ratepayer benefits with low risk methods, and (2) Peoples Gas, if it needs additional transportation to use the released capacity, should try to acquire that transportation. ICC Staff Ex. 3.0, p. 22. Dr. Rearden stated that Staff wants to see "concrete evidence that Peoples is seriously and empirically evaluating all its alternatives." Staff Ex. 6.0 at 7.

##### **2. Cub-City**

CUB-City did not testify about this issue.

##### **3. AG**

The AG, citing Staff's testimony, agreed with the Staff recommendations.

##### **4. Peoples Gas**

Peoples Gas stated that it does evaluate the best use of its Rate Schedule NSS capacity ("NSS"), which it purchases from Natural, and it will continue to do so. Peoples Gas agreed that NSS is a valuable service. Resp. Ex. D, pp. 16-17. Peoples Gas explained that, by releasing NSS at the tariff maximum rate, it and its customers were not

paying anything for the capacity, yet Peoples Gas retained the option of keeping the NSS in its portfolio. Retaining this free option is reasonable, especially when there is no present ability to use this capacity, but going forward this may change. Resp. Ex. D, pp. 18-19.

## **5. Commission Analysis and Conclusion**

In this issue, like the previous one, Staff does not recommend a disallowance or a finding of imprudence. Rather, Staff seems again to be seeking more information on how these contracts should be valued. We agree that the Company should provide more information to Staff on the value of this service and whether it has considered all its alternatives. We note that this issue will be further explored in Docket 06-0752.

### **E. Gas Supply Contracting Process - Storage Refill Contract**

#### **1. Staff's Position**

The Staff expressed concern about a contract under which Peoples Gas purchased supply to fill storage. Dr. Rearden testified that the storage refill contract allowed the seller to determine the timing for the storage refill. This could forfeit value in three ways. First, Dr. Rearden stated that it surrendered physical control over the system. Second, Peoples Gas lost the opportunity to take advantage of a falling price during a given month. Third, Peoples Gas gave up the ability to choose which months in which to concentrate its purchases. As an example, Dr. Rearden cited the impact on prices of Hurricanes Katrina and Rita. ICC Staff Ex. 3.0, p. 23. Dr. Rearden stated that Peoples Gas did not value the optionality of the contract. ICC Staff Ex. 3.0, p. 24. According to Dr. Rearden, a proper calculation of savings would account for the optionality that Peoples Gas gave up in order to get the price it received. ICC Staff Ex. 6.0, p. 9.

While Staff does not propose a disallowance, it rejects the Company's calculation of savings. As with the other contracts that concern Staff, it does not appear that Peoples has carefully evaluated what it surrendered when it purchased gas under the Storage Refill Contract. As such, Staff recommends that the Commission order Peoples to fully and empirically evaluate the optionality it surrenders in contracts similarly structured. Ratepayers are best protected when Peoples Gas independently analyzes the value derived from having the option regarding when to fill storage.

#### **2. CUB-City**

CUB-City did not testify about this issue.

#### **3. AG**

The AG, citing Staff's testimony, agreed with the Staff recommendations. AG In. Br., pp. 7-8.



#### **4. Peoples Gas**

Mr. Zack stated that the transaction was designed as a proxy baseload storage refill purchase to minimize gas charge customers' costs. By "proxy baseload contract," Peoples Gas means that the pricing under the contract assumed baseload deliveries while the actual deliveries could vary somewhat, as long as the supplier met its total delivery obligation. Baseload storage refill volumes are distributed equally over the summer or as dictated by the pipeline tariff to provide a dollar cost averaging-like cost profile.

During the reconciliation period, Respondent's summer NSS storage refill purchase requirements were about half of normal requirements because the preceding winter was 6% warmer than normal. Respondent could offer the market a flexible injection program while remaining consistent with its baseload storage refill philosophy. Peoples Gas chose the best priced gas, saving ratepayers \$583,762.50. According to Mr. Zack, Peoples Gas was able to assess the benefit to customers because, concurrent with the flexible storage refill RFP, Peoples Gas requested through a separate RFP process a baseload refill supply RFP designed to meet other storage requirements. Comparing the bids showed the benefits of the NSS storage refill contract.

According to Mr. Zack, Peoples Gas does not speculate by purchasing all required volumes in one month hoping it is the cheapest month, nor does Peoples Gas purchase daily volumes betting that today's daily index prices are cheaper than future daily index prices. Thus, Peoples Gas disagrees with Dr. Rearden's suggestion that customers "would have been able to share in the lower costs if the contract had been structured to allow the utility to time its purchases." ICC Staff Ex. 3.0, p. 23. That suggestion would have required price speculation that could have just as easily increased costs. Indeed, Mr. Zack stated that, in the prior two summers, prices fell in the late summer.

#### **5. Commission Analysis and Conclusion**

Staff recommends that the Commission order Peoples to fully and empirically evaluate the optionality it surrenders in similarly structured contracts. Staff states that ratepayers are best protected when Peoples Gas independently analyzes the value derived from having the option regarding when to fill storage. The Commission finds it difficult to adopt Staff's recommendations. To the extent Staff is seeking more information in order to make a thorough prudence review, we agree that Peoples Gas should provide that information. If, however, Staff is seeking for the Commission to direct the Company to alter its activity that has not been found to be imprudent, the Commission declines.

#### **F. Gas Supply Contracting Process - Manlove Field and Hub Services**

##### **1. Staff**

Staff recommended that Hub issues be litigated in Peoples Gas' pending rate case.

## 2. AG

The AG did not address this issue.

## 3. CUB-City

CUB-City state that, pursuant to its FERC Operating Statement, Peoples Gas provides transportation and storage services to certain counter parties (generally marketers). These services utilize the Company's on-system storage facility, Manlove Field, and CUB-City refer to these services as Chicago hub or non-tariff services. Under these transactions, Peoples Gas either accepts gas from a counter party and returns it at a later point in time, or lends gas to a counter party who returns it at a later point in time. CUB-City witness Mr. Mierzwa testified that the Company's current practice of providing hub services is unreasonable because of the significant risk that it will increase gas costs recovered from ratepayers.

CUB-City state that the Company allocates a predetermined portion of Manlove storage capacity for use in meeting its system supply storage needs. According to CUB-City, Peoples Gas employs a gas dispatch model to assist it in the gas supply planning process, in which it sets the amount of Manlove storage available for system supply during the reconciliation period at a predetermined amount allegedly based on historical experience. CUB-City argue that this practice is unreasonable, because the amount of Manlove storage has increased over time and the Company has provided no analyses to support the initial or continued prudence of limiting the amount of Manlove storage allocated to system supply.

Mr. Mierzwa testified that, although it does not appear that ratepayers were adversely affected by the provision of hub services during the reconciliation period, the Company has not met its burden of demonstrating that it prudently allocated Manlove storage between system supply and hub services. In particular, Mr. Mierzwa stated that is unreasonable to predetermine and limit the quantity of Manlove storage used to serve ratepayers because doing so precludes the Company's gas dispatch model from optimizing the amount of Manlove storage utilized to serve ratepayers. Mr. Mierzwa explained that seasonal price difference in gas prices largely drive the demand for hub services because gas marketers try to capitalize on seasonal differences in gas prices. Peoples Gas' revenues for hub services are affected by the magnitude of the seasonal price differences. For example, in late September 2004, the market price for October 2004 delivered gas, as posted on the New York Mercantile Exchange ("NYMEX"), was approximately \$5.70 per Dth. The NYMEX price for December 2004 delivered gas in September 2004 was approximately \$6.80 per Dth. From this example, Mr. Mierzwa concluded that a gas marketer could have capitalized on this expected \$1.10 per Dth seasonal price difference by purchasing Peoples Gas's hub services.

Mr. Mierzwa cited a particular example where a counter party could enter into a storage service arrangement with Peoples Gas in which it would deliver \$5.70/Dth gas to Peoples Gas in October 2004 and have that gas returned in December 2004. If the December 2004 market price of gas was \$6.80 per Dth, the counter party could sell gas for delivery at that time for a profit of \$1.10/Dth (\$6.80 minus \$5.70/Dth). According to Mr. Mierzwa, because of this difference, a gas marketer could realize a profit as long as it paid less than \$1.10/Dth for PGL's storage service.

Mr. Mierzwa elucidated a specific problem with Peoples Gas' current use of hub transactions. He stated that Peoples Gas entered into a hub service arrangement that provided for the delivery of gas to the Company in October 2004 and the return of that gas to the counter party in December 2004. Peoples Gas received \$0.9250 per Dth for this service. However, according to Mr. Mierzwa, this example shows that, had the Company used Manlove storage to serve sales customers rather than provide storage service to a third party, the entire \$1.10/Dth price differential, rather than the \$0.9250/Dth hub service revenues, would have benefited ratepayers. CUB-City maintain that Mr. Mierzwa's example demonstrates the inherent problem with People Gas's hub transactions -- typically, ratepayers would realize greater benefits if Manlove storage were utilized to serve them rather than to provide hub services. Though CUB-City concluded that ratepayers were not adversely affected by Peoples Gas's provision of hub services during the 2005 reconciliation period (because prices for the winter of 2004-2005 turned out to be lower than those posted on the NYMEX during the prior summer), CUB-City aver that it is clear that the use of Manlove for hub transactions reduces the total potential benefits of ratepayer-funded base rate storage assets.

In addition to not optimizing existing storage assets, CUB-City present further evidence that Peoples Gas' use of Manlove for hub transactions is imprudent. Mr. Mierzwa cited to the fact that Peoples Gas paid approximately \$35 million for 33.5 Bcf of contract storage service from interstate pipelines (e.g. NGPL, ANR pipeline); costs which are passed on to ratepayers through the PGA. CUB-City argue that, if the Company used its gas planning model to employ least-cost planning, it could reduce its contract storage gas costs. Because the costs associated with Manlove storage are recovered through the Company's base rates and, therefore, are not recoverable gas costs, CUB-City conclude that the Company should use its gas dispatch model to optimally allocate its total Manlove storage capacity.

CUB-City argue that, by predetermining the amount of on-system storage available for system supply, the Company cannot properly analyze whether the Manlove storage currently assigned to hub services could be utilized to displace or eliminate pipeline contract storage services and thus lower costs for ratepayers. Mr. Mierzwa calculated that, if the Company were able to displace the 33.5 Bcf of pipeline contract storage service with Manlove storage, gas costs could be reduced by approximately \$9,500,000. Mr. Mierzwa did not propose an adjustment in this amount, because the contract storage arrangements

were executed during the period covered by the Settlement Order in Docket No. 01-0707. Further, Mr. Mierzwa did not recommend that all of the Manlove storage currently used to support hub services should be assigned to system supply; only that the amount of Manlove storage assigned to system supply should be determined by the utility's dispatch model. *Id.* at 7, L. 141-145. CUB-City request that the Commission require Peoples Gas to run its dispatch planning model without predetermining the amount of Manlove storage assigned to hub services to better determine whether Manlove storage currently supporting hub services could be utilized to reduce the utility's contract storage requirements.

#### **4. Peoples Gas**

Regarding Staff's position, Peoples Gas agrees that issues not pertinent to Peoples Gas' fiscal 2005 recoverable gas costs should not be addressed in the instant proceeding. Whether, and to what extent, Hub services issues are relevant to the rate case, should be addressed in the rate case and not this proceeding.

Mr. Zack stated that Hub services are provided only after Peoples Gas has made Manlove and Mahomet pipeline decisions for gas charge and transportation customers. This means no Hub activity can take place if those assets are fully used for the on-system customers.

Mr. Zack explained that Manlove does displace contract storage. Without the use of Manlove, Peoples Gas would almost certainly contract for more pipeline storage. However, not all storage is the same. Peoples Gas' use of Manlove is driven by operational considerations. Mr. Zack stated that as the owner and operator of that field, Peoples Gas must manage it in a way that preserves deliverability. Mr. Zack stated that, by contrast, when Peoples Gas purchases a pipeline service, the pipeline tariff and the contract determine how Peoples Gas may use the service. Peoples Gas' pipeline services complement Manlove.

Mr. Zack stated that Peoples Gas took current Manlove operating parameters into account when developing the existing supply, transportation, and storage portfolio for Peoples Gas. The parameters included the need to cycle the entire amount that was planned to be injected for customers. The Gas Dispatch Model was used in fine-tuning the portfolio and testing it under a variety of weather conditions.

Mr. Zack described the Gas Dispatch model and explained that Manlove is accounted for in the model to reflect Manlove's operational limitations. For example, Manlove's typical withdrawal season is about 90 days from early December through early March. Given Manlove's typical withdrawal season and the need to cycle the inventory each year, Mr. Zack stated that, approximately every 90 dth increase in Manlove inventory for Peoples Gas' system supply would take the place of 1 dth/day of December through February baseload supply.

He further stated that, adding 9 Bcf to Manlove inventory for Peoples Gas' system supply would require de-contracting 100,000 dth/day of baseload supply for December through February due to warm year constraints and warm days in a normal year constraints. An alternative would be for Peoples Gas to purchase additional puts for 100,000 dth/d. The seasonally de-contracted supply would still be needed in November and March to support Manlove injections in those months. Thus, Peoples Gas would be in the monthly and daily markets to obtain the necessary supply.

Mr. Zack also explained why replacing purchased storage services with Manlove is not necessarily practical. Pipeline services have longer withdrawal seasons that extend both prior to and continue after the Manlove withdrawal season. These services also have varying levels of daily no-notice injection and withdrawal capabilities, and annual cycling requirements of 50% or less. Mr. Zack stated that, if Peoples Gas used capacity currently used for Hub services, it would displace some baseload supply and its associated FT that could not be released because it would still be needed on the peak day. In fact, the flexibility of the remaining storage services becomes more important as the flexibility of Manlove to Peoples Gas ratepayers is reduced by adding more inventory without proportionally adding daily withdrawal capability.

## **5. Commission Analysis and Conclusion**

Mr. Mierzwa testified that, although it does not appear that ratepayers were adversely affected by the provision of hub services during the reconciliation period, he does not believe that the Company has met its burden of demonstrating that it prudently allocated Manlove storage between system supply and hub services. CUB-City request that the Commission require Peoples Gas to run its dispatch planning model without predetermining the amount of Manlove storage assigned to hub services to better determine whether Manlove storage currently supporting hub services could be utilized to reduce the utility's contract storage requirements.

Given Mr. Mierzwa's opinion that ratepayers were not adversely affected during the reconciliation period and that no other party recommends a disallowance for this issue, the Commission declines to make a finding of imprudence for the 2005 reconciliation period. Manlove storage and hub services is an issue that is being litigated in Docket 07-0242, Peoples Gas' currently-open, gas rate proceeding, as recommended by Staff.

## **G. Audit**

Pursuant to the Commission's Orders in Dockets 01-0707, 02-0727, 03-0705 and 04-0683, a third party is currently conducting a management audit of Peoples Gas' gas supply function. Staff witness Hathhorn testified that if, after the Commission issues a final order in this case, the management audit uncovers any material issues or adjustments related to fiscal year 2005, then this proceeding should be reopened. Staff witness Anderson stated that, after the audit is completed, a course of action will need to be

determined. CUB-City witness Mierzwa testified that CUB-City reserves the right to propose further adjustments based on the audit. The AG stated that the Commission's order should include a finding and ordering paragraph to permit the re-opening of this docket pending the outcome of the audit.

Peoples Gas argued that it is premature to address what, if any, effect the audit will have on this proceeding. Peoples Gas cited the Commission's rules, which address reopening a docket. The rule (83 Ill. Admin. Code §200.900) states:

After issuance of an order by the Commission, the Commission may, on its own motion, reopen any proceeding when it has reason to believe that conditions of fact or law have so changed as to require, or that the public interest requires, such reopening. No party may petition the Commission to reopen on its own motion until after the time to petition for rehearing has expired.

Peoples Gas argued that Section 200.900 will govern when and whether this proceeding is re-opened. There is no basis in the record to speculate about the effect of the audit, nor are there any rights for parties to reserve in this regard. When the audit report is issued, Section 200.900 of the Commission's Rules of Practice is sufficient to address the concerns raised by the Staff and CUB-City witnesses. Staff agrees that Section 200.900 will govern re-opening, but Staff asserts that it is appropriate for the Commission's order to include a finding and ordering paragraph to address the audit.

The Commission concludes that there is no need to provide for re-opening this docket based on the audit. The Commission's rules adequately address this matter.

#### **IV. FINDINGS AND ORDERING PARAGRAPHS**

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) The Peoples Gas Light and Coke Company is an Illinois corporation engaged in the distribution of natural gas to the public in the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (2) the Commission has jurisdiction over The Peoples Gas Light and Coke Company and of the subject matter of this proceeding;
- (3) the recitals of fact and the conclusions reached in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;

- (4) The Peoples Gas Light and Coke Company has filed a reconciliation of revenue collected under its purchased gas adjustment clause (Rider 2, Gas Charge, of Respondent's Schedule of Rates) with the actual costs prudently incurred and recoverable under Rider 2, for the twelve months ended September 30, 2005;
- (5) The Peoples Gas Light and Coke Company should implement Factor O refunds of \$20,542,609.26 through its Commodity Gas Charge in its first monthly Gas Charge filing after the date of this Order;
- (6) the Commission approves The Peoples Gas Light and Coke Company's reconciliation statement as reflected in Appendix A to this Order; and
- (7) all motions, petitions, objections or other matters in this proceeding which remain undisposed of should be disposed of consistent with the conclusions herein.

IT IS THEREFORE ORDERED that The Peoples Gas Light and Coke Company's purchased gas reconciliation of costs actually incurred for the purchase of natural gas with revenues received for such costs, for the twelve month reconciliation period ended September 30, 2005, as set forth in Appendix A to this Order, be, and is hereby, approved.

IT IS FURTHER ORDERED that The Peoples Gas Light and Coke Company should refund the Commodity Gas Charge Factor O of \$20,542,609.26 beginning with the first monthly filing following the issuance of this order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 16<sup>th</sup> day of January, 2008.

(SIGNED) CHARLES E. BOX

Chairman